

Financial Week Newsletter

...as summarized by Smith Shellnut Wilson

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Equity Markets

- Volatility retreated heavily week over week. That led to the best week for the three major U.S. equity indexes since November of 2020.

	<u>3/11 Close</u>	<u>3/18 Close</u>	<u>Price Change</u>
Dow Jones	32,944	34,755	Up 5.5%
S&P 500	4,204	4,460	Up 6.1%
NASDAQ	12,844	13,884	Up 8.1%
KBW Bank Index	122.66	129.90	Up 5.9%
VIX	30.75	24.04	Down 21.8%

Financials

- Regulators closed no additional banks last week; year-to-date closures remain at zero.
- Financials had a strong week because of lower volatility and tighter credit spreads. With the FOMC coming in on the lower end of its rate hike expectation it also provided depository institutions with relief from rising cost of funds.

Rates/Spreads

- Treasury yields were up across every Treasury duration tenor, with 2 – 5-year rates seeing the largest upward movement.

	<u>3/11 Close</u>	<u>3/18 Close</u>	<u>Yield Change</u>
3mo UST	0.38%	0.44%	Up 6 bp
2yr UST	1.75%	2.02%	Up 25 bp
5yr UST	1.95%	2.23%	Up 28 bp
10yr UST	2.00%	2.24%	Up 24 bp
2-10yr UST Spread	+25bp	+22bp	Down 3 bp

- Segments of the Treasury curve inverted for the first time since 2019. 3- through 7-year Treasury rates pushed up higher than 10-year Treasury rates during the week. This was a sign from investor's regarding concerns over future economic growth.
- Investment grade credit spreads had their largest one-week tightening (positive for asset quality) in over a year.

Treasury/Fed/Administration/Congress

- The Federal Reserve's rate-setting body, the FOMC, voted March 16 to raise its benchmark interest rate by twenty-five basis points and signaled that six more rate hikes could be in store this year. The post-meeting statement hinted at rising concern among Fed officials over inflation that initially was driven by pandemic-related supply chain issues but has since spread. Officials signaled their expectation of lifting the fed funds rate to almost 2% by year-end, and the median projections show the benchmark rate rising to around 2.75% by the end of 2023, which would be its highest level since 2008.
- Sarah Bloom Raskin, a former Federal Reserve governor and former deputy Treasury secretary, withdrew her name from consideration as President Joe Biden's pick for the Federal Reserve. Raskin faced opposition from Sen. Joe Manchin, D-W.V., in addition to Republicans over her position on regulating bank activities related to climate change. Following Raskin's withdrawal, Biden's four other Fed nominees for top seats at Federal Reserve Board and the Federal Housing Finance Agency were advanced by the Senate Banking Committee for a full Senate vote.

Economy

- February PPI Wholesale prices rose a sharp 0.8% (WSJ forecast was for 0.9%) in February and signaled that the hottest U.S. inflation in 40 years is unlikely to cool off in the spring. In a bit of good news, the increase in core wholesale prices only rose 0.2% to mark the smallest advance in 15 months.
- Retail sales at U.S. retailers slowed sharply in February, rising a scant 0.3%, with Americans buying fewer goods because of higher inflation.
- In February privately owned housing starts increased by 6.8% (4.7% consensus forecast) from January.
- Sales of Existing Homes fell by 7.2% in February 2022 and affordability concerns mount as the median price of existing homes increased by 15% year over year.

This Week

Economic data scheduled to be released this week include Feb. New Home Sales (Wed), Feb. Durable Goods (Thu) and Univ of Michigan Consumer Sentiment (Fri).

Quote

“The future cannot be predicted, but futures can be invented”

- Dennis Gabor

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